

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-82-S

IN RE:)
)
 Application of Palmetto Wastewater Reclamation,)
 LLC for adjustment of rates and charges)
 and for modifications to certain terms and)
 conditions for the provision of sewer)
 service.)
 _____)

PREFILED REBUTTAL TESTIMONY OF MARK S. DADAY
ON BEHALF OF PALMETTO WASTEWATER RECLAMATION LLC

1 **Q. ARE YOU THE SAME MARK S. DADAY WHO HAS PRESENTED DIRECT PREFILED**
 2 **TESTIMONY IN THIS PROCEEDING?**

3 A. I am.

4 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
 5 **PROCEEDING?**

6 A. The purpose of my rebuttal testimony is to respond on behalf of Palmetto
 7 Wastewater Reclamation LLC, or “PWR” or the “Company”, to the position taken by the
 8 South Carolina Office of Regulatory Staff, or “ORS,” witnesses proposing certain
 9 adjustments to rate case expense, interest expense, and to revenues to account for the effect
 10 of the 2017 Federal Tax Cuts and Jobs Act. I also want to respond to the reasonableness of
 11 ORS’s proposal that the Company’s rates be set so as to allow only \$114,516 in additional
 12 revenue in view of the increase in the Company’s property taxes associated with the
 13 additional capital investment since our last rate proceeding.

1 **Q. WHAT ADJUSTMENTS HAS ORS PROPOSED REGARDING RATE CASE**
2 **EXPENSE?**

3 A. In the testimony of ORS witness Christina Seale, ORS proposes by adjustment
4 number 2E that \$14,850 of rate case expense be excluded because this invoice “related to
5 an application with a different test year not filed by the Company.”

6 **Q. DO YOU AGREE WITH THIS ADJUSTMENT?**

7 A. I do not.

8 **Q. WHY DO YOU DISAGREE?**

9 A. I disagree because this amount represents work performed by Company witness
10 Donald J. Clayton of Tangibl Group, Inc. in preparing the schedules required for a rate
11 application. This work was performed in June of 2018. The schedules he prepared at that
12 time were not filed with the application in this matter because the Company decided to
13 propose a more current test year, specifically one ending on August 31, 2018, than that
14 reflected in the schedules he initially prepared. We believe that the Commission, ORS and
15 customers benefit from utilizing a test year which is as close as possible to the actual year
16 in which an application is made as it provides more current data and can reduce the need
17 for pro forma adjustments. Although the schedules prepared by Mr. Clayton in June of
18 2018 were not filed, they were the basis for the schedules that he later updated and were
19 ultimately filed with the application in this case. This work therefore contributed to the
20 Company’s filing and presentation in this matter and the \$14,850 in expense incurred by
21 the Company should therefore be allowed. This amount is recovered over three years so
22 the revenue requirement adjustment is \$4,950 per year. I should note that, because rate
23 case expenses continue to be incurred and will be updated through the hearing in this
24 matter, these expenses and this adjustment are subject to change.

25 **Q. WHAT ADJUSTMENT HAS ORS PROPOSED TO THE COMPANY’S INTEREST**
26 **EXPENSE?**

27 A. ORS witness Seale proposes in her Adjustment Number 15 to effectively remove
28 the amortization of debt expense by using an incorrect interest rate of 5.04% instead of the
29 Company’s actual cost of debt of 5.23%. PWR does not agree with this proposed
30 adjustment and believes it to be factually incorrect.

1 **Q. WOULD YOU PLEASE EXPLAIN WHY YOU BELIEVE THIS ADJUSTMENT IS**
2 **FACTUALLY INCORRECT?**

3 A. Yes. In the application, the Company's total interest expense is based on a cost of
4 debt rate of 5.23% which includes the amortization of debt issuance costs. ORS's proposed
5 interest expense adjustment uses a rate of 5.04%, which ignores the debt amortization
6 component of our interest expense. By using 5.04%, the ORS adjustment effectively
7 removes the amortization from recovery.

8 **Q. DOESN'T COMPANY WITNESS WALKER USE THE 5.04% RATE IN HIS ANALYSIS**
9 **OF PWR'S COST OF CAPITAL?**

10 A. He does, but that does not justify excluding a component of allowable interest
11 expense. Debt amortization expense is an allowable expense for ratemaking. In a response
12 to an ORS discovery request, specifically its Utilities Rates Request Number Eleven, PWR
13 noted the factor (3.85%) that explained the difference between the 5.04% and 5.23% as
14 being the debt amortization (thus, $1.0385 \times 5.04\% = 5.23\%$). Our cost of capital witness,
15 Harold Walker, used the 5.04% to determine cost of capital which is appropriate for that
16 calculation. It is appropriate to use it in determining cost of capital, however, it is
17 inappropriate to use 5.04% as PWR's total cost of debt as it adjusts out an allowable
18 expense of the utility. Therefore, applying the proper weighted average cost of debt of 5.23%
19 to the portion of the Company's rate base funded by debt (45% of \$9,774,185 = \$4,398,383)
20 generates synchronized interest expense of \$230,035. This amount less the Company's per
21 book interest expense of \$920,369 yields an adjustment of (\$690,334). This calculation
22 changes, of course, if the Commission accepts PWR's proposed, actual capital structure as
23 discussed in Mr. Walker's testimony.
24

25 **Q. WHAT ADJUSTMENT DOES ORS PROPOSE TO THE COMPANY'S REVENUES TO**
26 **ACCOUNT FOR THE IMPACT OF THE 2017 FEDERAL TAX CUTS AND JOBS ACT?**

27 A. ORS witness Seale proposes in her Adjustment Number 20A to impute to the
28 Company's net utility operating income \$77,236 "due to the Tax Cuts and Jobs Act." This
29 adjustment is further discussed in the direct testimony of ORS witness Matthew

1 Schellinger, who effectively characterizes the portion of the Company's approved rates
2 which recovered PWR's Federal income taxes at a 34% rate, collected on and after January
3 1, 2018, as "excess revenues."

4 **Q. DO YOU AGREE WITH THIS PROPOSED ADJUSTMENT AND MR. SCHELLINGER'S**
5 **CHARACTERIZATION?**

6 A. I do not for the simple reason that it constitutes retroactive ratemaking. Mr.
7 Schellinger describes the reduction of the Federal corporate income tax rate from 34% to
8 21% as resulting "in savings of approximately \$56,387 to customers." But the Tax Cuts
9 and Jobs Act does not provide for, much less require, that reductions in tax expenses be
10 passed along to customers effective January 1, 2018. The Company had a lawful rate on
11 January 1, 2018, that it was entitled to charge. The change in the corporate tax rate under
12 the Federal act relied upon by ORS did not result in PWR earning in excess of its authorized
13 return. This is demonstrated by ORS's own analysis in this case which demonstrates that,
14 per books, the Company's then current rates resulted in an operating margin of 6.62% --
15 instead of the 17.07% authorized to it in its last rate relief proceeding. ORS's proposed
16 adjustment would have the Commission reach back to January 1, 2018, and effectively
17 reduce PWR's approved rate to account for this – but no other – change in the Company's
18 revenues and expenses. As PWR has repeatedly stated in its filings before this
19 Commission in the proceeding to consider ORS's petition filed in December of 2017 to
20 address the effect of the Tax Cuts and Jobs Act, it is also inappropriate for the Commission
21 to engage in ratemaking that focuses on a single expense. That is the effect of ORS's
22 proposal here as it asks the Commission to examine one expense incurred prior to the test

1 year in this case, but no others, and then apply a reduction in that expense to retroactively
2 reduce a lawful rate in effect on January 1, 2018.

3 **Q. YOU MENTIONED AN INCREASE IN THE COMPANY'S PROPERTY TAXES; WOULD**
4 **YOU PLEASE ELABORATE ON THAT COMMENT?**

5 A. Yes. Since the Company's last rate case in 2014, our ad valorem property taxes
6 have increased by approximately \$350,000. This can be seen by comparing the allowable
7 taxes other than income taxes which are reflected in ORS witness Seale's Audit Exhibit
8 CLS-1, which total \$645,914, with the same utility operating expense entry for these taxes
9 which were approved in Commission Order Number 2014-752 issued in Docket Number
10 2014-69-S, Exhibit 1, page 1 of 7, which total \$280,176. The total difference between
11 these two figures is \$365,738. However, I have deducted approximately \$15,000 in ad
12 valorem vehicle taxes and regulatory assessment fees for purposes of comparing the
13 additional taxes attributable to new plant. The addition of \$6.8 Million in new plant and
14 facilities was necessitated by our memorandum of understanding with DHEC that is
15 discussed in my direct testimony. I have attached to my rebuttal testimony as MD-Rebuttal
16 Exhibit 1 a copy of the tax bill we received from Lexington County. As this tax bill reflects,
17 PWR is taxed at a ten and one-half percent assessment ratio because it is a utility. The tax
18 is also based on a valuation performed by the South Carolina Department of Revenue.
19

20 **Q. WHAT CONCLUSION DO YOU DRAW FROM ORS'S PROPOSAL WITH RESPECT TO**
21 **AN APPROPRIATE AMOUNT OF ADDITIONAL REVENUES FOR THE COMPANY IN**
22 **VIEW OF THIS INCREASED AD VALOREM TAX?**

23 A. The only conclusion that I can draw is that ORS believes it is appropriate for a
24 utility to have rates set which do not allow it to recover the increased property taxes on
25 new plant that is used and useful in providing sewer service to the public. I wholeheartedly
26 disagree that this results in a just and reasonable rate to the Company.
27

28 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

29 A. Yes, it does.

DEC 04 2018

COUNTY OF LEXINGTON, SOUTH CAROLINA

139407

CLASSIFICATION	CURRENT TAX YEAR				PREVIOUS TAX YEAR			
	ACRES / LOTS	TAXABLE VALUE	X RATIO	= ASSESSMENT	ACRES / LOTS	TAXABLE VALUE	X RATIO	= ASSESSMENT
OWNER OCCUPIED		0		0		0		0
OTHER PROPERTY		9,396,860	.105	986,670		0		0
MARKET VALUE AG.		0		0		0		0
USE VALUE AG.		0		0		0		0

PROPERTY TYPE : Utility

BILL NUMBER : 2018-193085-108

TAX YEAR : 2018

TAX DISTRICT : School District One

DECEMBER 31, 2017 OWNER : PALMETTO WASTEWATER RECLAMATION, L.L.C.

LEGAL DESCRIPTION : COUNTY WIDE UTILITY

56328 1 AV 0.375

P:56328 / T:196 / S:1

PALMETTO WASTEWATER RECLAMATIONLLC

ATTN: PROPERTY TAX

1710 WOODCREEK FARMS RD

ELGIN SC 29045-8755



CURRENT TAX YEAR						PREVIOUS TAX YEAR				
2018 ASSESSMENT : 986,670						2017 ASSESSMENT : 0				
HOMESTEAD ASSESSMENT : 0						H/S : 0				
TAX RELIEF : 0						TAX RELIEF : 0				
TAXING AGENCY	2018 MILLAGE	2018 TAXES	HOMESTEAD EXEMPT	TAX CREDIT	NET TAXES	2017 MILLAGE	2017 TAXES	HOMESTEAD EXEMPT	TAX CREDIT	NET TAXES
SCHOOL										
School 1 Operation	322.400	318,102.41	0.00	0.00	318,102.41	0.000	0.00	0.00	0.00	0.00
School 1 Bonds	85.300	84,162.95	0.00	-19,630.04	64,532.91	0.000	0.00	0.00	0.00	0.00
Subtotal School	407.700	402,265.36	0.00	-19,630.04	382,635.32	0.000	0.00	0.00	0.00	0.00
Percent Of Total Bill	77.33%				76.44%	0.00%				0.00%
COUNTY										
County Ordinary	24.186	23,863.60	0.00	0.00	23,863.60	0.000	0.00	0.00	0.00	0.00
Law Enforcement	34.354	33,896.06	0.00	0.00	33,896.06	0.000	0.00	0.00	0.00	0.00
Fire Service Operation	20.363	20,091.56	0.00	0.00	20,091.56	0.000	0.00	0.00	0.00	0.00
Indigent Care	0.500	493.34	0.00	0.00	493.34	0.000	0.00	0.00	0.00	0.00
Library Operations	6.180	6,097.62	0.00	0.00	6,097.62	0.000	0.00	0.00	0.00	0.00
Solid Waste	7.877	7,772.00	0.00	0.00	7,772.00	0.000	0.00	0.00	0.00	0.00
County Notes & Bonds	3.700	3,650.68	0.00	0.00	3,650.68	0.000	0.00	0.00	0.00	0.00
Subtotal County	97.160	95,864.86	0.00	0.00	95,864.86	0.000	0.00	0.00	0.00	0.00
Percent Of Total Bill	18.43%				19.15%	0.00%				0.00%
AGENCY										
Rec & Aging Comm Ops	12.202	12,039.35	0.00	0.00	12,039.35	0.000	0.00	0.00	0.00	0.00
Rec & Aging Comm Bonds	3.700	3,650.68	0.00	0.00	3,650.68	0.000	0.00	0.00	0.00	0.00
Midland Tech Operation	2.956	2,916.60	0.00	0.00	2,916.60	0.000	0.00	0.00	0.00	0.00
Midland Tech Capital	1.397	1,378.38	0.00	0.00	1,378.38	0.000	0.00	0.00	0.00	0.00
Riverbank Park Bonds	1.000	986.67	0.00	0.00	986.67	0.000	0.00	0.00	0.00	0.00
Riverbank Park Oper.	1.088	1,073.50	0.00	0.00	1,073.50	0.000	0.00	0.00	0.00	0.00
Subtotal Agency	22.343	22,045.18	0.00	0.00	22,045.18	0.000	0.00	0.00	0.00	0.00
Percent Of Total Bill	4.24%				4.41%	0.00%				0.00%
BILLING TOTALS	527.203	520,175.40	0.00	-19,630.04	500,545.36	0.000	0.00	0.00	0.00	0.00

APPROVED BY: *L. Wajit*JOB: *PLUR*G/L *04-23611-A-001**05-23611-A-001*442,482.105 *CATWED*

58,063.26

REC'D 10/11/18

Detach here and return bottom section with payment to Lexington County Treasurer

COUNTY OF LEXINGTON, SOUTH CAROLINA

*** OFFICIAL RECEIPT UPON VALIDATION ***

TYPE : Utility
 BILL NUMBER : 2018-193085-108
 TMS# : *Utility*
 TAX YEAR : 2018
 DISTRICT : School District One
 DESCRIPTION : COUNTY WIDE UTILITY

Due Date for Payment: 01/15/2019

Pay This Amount

500,545.36

+ 3% Penalty from 01/16/2019 thru 02/01/2019 515,561.72
 + 10% Penalty from 02/02/2019 thru 03/18/2019 550,599.90
 + 15% Penalty & Cost After 03/18/2019 575,647.16

If paying by check, make check payable to: COUNTY OF LEXINGTON

PALMETTO WASTEWATER RECLAMATIONLLC
 ATTN: PROPERTY TAX
 1710 WOODCREEK FARMS RD
 ELGIN SC 29045

LEXINGTON COUNTY TREASURER'S OFFICE
 PO BOX 3000
 LEXINGTON SC 29071-3000

UT

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